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PROVIDING AN ADEQUATE AND BALANCED FLOW OF THE MAJOR AGRICULTURAL COMMODITIES IN INTERSTATE AND FOREIGN COMMERCE, AND FOR OTHER PURPOSES

NOVEMBER 16 (calendar day, NOVEMBER 22), 1937.—Ordered to be printed with an illustration

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Mr. SMITH, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany S. 2787]

The Committee on Agriculture and Forestry, to whom was referred the bill (S. 2787) providing for an adequate and balanced flow of the major agricultural commodities in interstate and foreign commerce (Agricultural Adjustment Act of 1937), having considered the same, report thereon favorably with a recommendation that the bill, as amended, do pass.

A subcommittee composed of Mr. Smith, Mr. McGill, Mr. Bankhead, Mr. Bilbo, and Mr. Ellender was appointed by the chairman to draft the committee report to accompany this bill.

In the bill it is declared to be the policy of Congress to regulate interstate and foreign commerce in cotton, wheat, corn, tobacco, and rice to the extent necessary to provide an adequate and balanced flow of such commodities. Such a flow can follow only from the leveling out of the recurring surpluses and shortage, that burden and obstruct interstate and foreign commerce in such products.

One of the results of such a policy will be the maintenance of parity prices to farmers for cotton, wheat, corn, tobacco, and rice domestically consumed and exported and parity of income for farmers engaged in marketing such commodities. Parity prices are those which will give the farmer as great a purchasing power for his cotton, wheat, corn, tobacco, and rice as those commodities had during the base period 1909–14, or in case of tobacco 1919–29. Further without interfering with such prices adequate supplies will be maintained in years of drought, flood, or other adverse conditions as well as in years of plenty, i. e., an ever-normal granary that will protect consumers from unreasonably high prices. Finally our national soil resources will be conserved and wasteful use of our soil fertility prevented.

Titles I and II. Wheat and Corn

All farmers engaged in producing for market wheat or corn are made eligible to enter into adjustment contracts with the Secretary of Agriculture. However, farmers who consume 75 percent of their wheat and corn on the farm or whose normal yield of corn is less than 300 bushels or of wheat is less than 100 bushels, may at their option exempt themselves from the bill including the marketing-quota provisions, or may take advantage of the bill by entering into adjustment contracts. The first contracts cover crops to be harvested in 1938. New contracts for a period not in excess of 2 years are to be tendered thereafter to farmers during the last 5 months of each year. Wheat and corn programs are not to go into effect for any one year unless 51 percent of the farmers have signified their intention to cooperate by signing the contracts.

In schedule A of title I the bill sets up loan and parity payment rates for wheat and corn as well as parity payment rates for cotton. A normal supply of corn and wheat; that is, domestic consumption, exports, and carry-over, is established at about 2,375,000,000 bushels and 750,000,000 bushels, respectively. Under the schedule it is planned that the total return to the farmer from the market price (which it is believed will be stabilized at close to the loan rate) plus the parity payments should vary with the total supply of the commodity at the beginning of the marketing year. If controls have been effective and the total supply is normal then the farmer should receive a total return equal to 100 percent of parity for his wheat and corn. On the other hand if the total supply is in excess of normal the percentage of parity to be received by the farmer decreases down to 82 percent when the total supply has risen to 14 percent or more in excess of normal. All the cooperators signing the adjustment contracts are entitled to the loans and to the parity payments; noncooperators are not and are also deprived of their Soil Conservation Act payments. They receive, however, the benefits of the larger market price resulting from the cooperator's efforts.

The loans will have a stabilizing effect on farm prices and enable the farmer to finance the storing of his share of the granary. The loans are made solely on the security of the commodity stored on the farm or in warehouses conforming to Government regulations. By title VII of the bill a Surplus Reserve Loan Corporation with a capital stock of $100,000,000 is established in the Department of Agriculture to handle the loans on wheat and corn as well as on all other agricultural commodities. Parity payments roughly serve to make up the difference between the market price and the percentage of parity which the bill provides for the farmer at the various supply levels. Despite the parity-payment rate the farmer may never receive more than this difference and the parity-payment rate also serves as a maximum in case the farm price falls below the loan rate.

For 1938, due to the fact that the soil-conservation program has already been placed in effect, the farmer is given the option of taking the payments under the Soil Conservation Act or the parity payments provided in the bill.

The wheat and corn cooperator agrees when abnormal supplies are on hand to divert from his base acreage for wheat or corn sufficient acreage to bring supplies back to normal, and also to store under

seal the normal yield of up to 20 percent of his base acreage. Diversion of acreage and storage is undertaken by the cooperator without special compensation and in return for the benefits of the stabilized income afforded him by his adjustment contract. The cooperator is required to engage in certain soil-maintenance, soil-building, and dairy practices with respect to the acreage diverted.

Marketing quotas for wheat and corn are provided in the event that acreage diversion and storage under seal by cooperators is inadequate to control the supply of wheat or corn marketed. These marketing quotas apply to the cooperator and noncooperator alike. Whenever the total supply at the beginning of the marketing year is more than 10 percent in excess of normal the Secretary is required to establish marketing quotas so as to make available during the year not less than a normal supply nor more than 10 percent in excess thereof, provided, however, that a referendum must be conducted and the imposition of marketing quota suspended if opposed by more than one-third of the wheat or corn farmers. In such event surplus reserve loans on wheat or corn, as the case may be, are also made unavailable until the beginning of the second succeeding marketing year. Penalties are imposed for engaging in the unfair agricultural practice of marketing in excess of quota where that practice affects interestate or foreign commerce.

Inasmuch as the cooperator will have already conformed to crop diversion requirements under his adjustment contract prior to the imposition of the marketing quota on the crop, it is unlikely that in any year in which marketing quotas are in effect the cooperator would be in any way restricted in his marketings. The effect of the marketing quotas is thus to place the noncooperator in the same position as the cooperator by requiring the former to withhold from market the normal yield of an acreage about equivalent to that that the cooperator will have diverted from his production of the crop, plus the normal yield of any acreage in excess of his base acreage that the noncooperator may also have devoted to the crop. It is to be noted that efficient production is not penalized inasmuch as the amount to be withheld from market is based upon the average normal yield for the acreage and not the actual yield.

For carrying out the acreage diversion and marketing quota provisions a national base acreage is established by the bill for wheat and corn and a national marketing quota by the Secretary of Agriculture. These are allotted to the States and local administrative areas therein, and to the individual farms by State, county, and local committees of farmers. The base acreages are equitably adjusted among the individual farms within a local administrative area according to tillable acreage, type of soil, topography, and production facilities. Provision is made for administrative and also judicial review of farm-base acreages.

In order to prevent undue hardship on noncooperators by the imposition of marketing quotas provision is made that noncooperators may obtain loans on their stocks of the crop in excess of their quotas at rates equal to 70 percent of the rates made available to cooperators.

To protect consumers the Secretary of Agriculture is required to call surplus reserve loans and release stocks of wheat or corn held under seal or as a result of marketing quotas whenever the price of wheat or corn reaches parity.

Title III. Cotton

The plan included in the bill for cotton is based upon the old economic law of supply and demand and provides machinery under which the cotton producers can effectively adjust the annual supply of cotton to meet the effective demands in the world markets for American cotton. The proposed program seeks to place the business of producing and marketing cotton under the same business rule which is so effectively used by industrial producers. When industry finds sales resistance to its products and when purchasing power by the public is reduced, the industrial producer does not continue the operation of his full plant at capacity but on the other hand adjusts the output of his plant to fit the changed conditions.

Agriculture has no way to comply with that sound business rule and as a result the price of cotton widely fluctuates from year to year on account of the great differences in the quantity of cotton produced from year to year. It is recognized that a suitable carry-over or warehouse supply of cotton to meet emergency should be kept on hand. Based upon long experience it is found that 35 percent of the normal supply, which is made up of the domestic consumption and exports, is adequate to meet all requirements. The average annual world consumption of American cotton for the last thirteen years, 1924–36, inclusive, was 13,501,000 bales. The 35 percent would give, accounting for variation in production from year to year, between 4,500,000 and 5,000,000 bales for the carry-over or normal warehouse supply. After the present abnormal probable carry-over of between 11,000,000 and 12,000,000 bales has been reduced to a normal carry-over, the plan then contemplates that the annual marketing of cotton shall be limited to the current annual domestic consumption and exports. This cannot be done with absolute accuracy, but changing conditions from year to year, will, on an average even up the quantity sought to supply the world demands for American cotton.

The bill declares it to be "the policy and the purpose of the United States to encourage the annual production of an ample supply of cotton of suitable grade and staple to supply all domestic and foreign consumption of such cotton and in addition thereto to maintain at all times a large enough surplus to meet all offers from all sources to buy American cotton at fair and reasonable prices, and never in excess of the world-market price for cotton of similar quantity."

The quantity of cotton to be sold each year is called the national marketing quota. The Secretary shall proclaim each year the number of bales that shall constitute the national marketing quota for such year. At no time can the number of bales be less than 70 percent of the average number of bales produced during the 10-year period ending December 1932. That minimum amount is 10,000,000 bales. Within 30 days after the approval of this act, and thereafter not later than December 15 of each subsequent year, a referendum shall be conducted by the Secretary, of the farmers who will be subject to the national marketing quota for cotton, to determine whether such farmers are in favor of or are opposed to such quota. Should two-thirds of the farmers vote in the affirmative, then such quota shall become effective.

The national marketing quota shall be apportioned by the Secretary among the several States on the basis of the production during the preceding 5 years.

The quota is then apportioned to counties or subdivisions thereof in the States, using three factors as a basis of apportionment, as follows:

1. The proportion that the land devoted to tilled lands on cotton farms in the county is of the land devoted to tilled lands on all cotton farms in the State. (Tilled lands means the acreage devoted to soil-depleting row crops and all other soil-depleting feed crops the previous year).

2. The proportion that the normal production of cotton for the county is of the State marketing quota. (Normal production is defined in subsec. 12 on p. 69 of the bill and means, in short, the average of the number of bales of cotton produced during the 5 years immediately preceding the year in which the normal production is used in any computation authorized in the act. There is also a proviso that if for any year of such 5-year period the number of bales of cotton produced in the county is less than one-third of the normal production so computed, the normal production of cotton shall be the average of the number of bales of cotton produced therein during the remaining years in such 5-year period.)

3. The number of families composed of two or more persons actually residing annually on and actually engaged in the production of growing of cotton, together with other farm crops on the tilled lands of the county.

Apportionment of the quota for any county or subdivision thereof shall be made by distributing among the farms therein that acreage which, on the basis of the average yield of cotton in such county or subdivision thereof, would produce the amount of county quota. Such acreage shall be apportioned among the farms producing cotton in the county or subdivision thereof, as follows:

1. By allocating 5 acres to each such farm for each family engaged thereon as owner, share tenant, tenant renter, or sharecropper in the production of cotton on such farm. It is provided that the number of acres allotted for any family cultivating less than 5 acres during either of the two preceding seasons shall be the larger of the number of acres that was cultivated in either of such seasons. This is intended to give a minimum without having it reduced by any reduction program but is to prevent increases over the acreage cultivated for the preceding 2 years.

2. At least 95 percent of any acreage remaining shall be apportioned to the farms in the county in the same proportion that the lands tilled on each farm in the preceding year bears to the total tilled lands in the county in such year.

3. The remainder of such acreage may be distributed equitably among farms in the county, taking into consideration good soil management, type of soil, topography, production facilities, the average acreage of cotton grown on the farm during the preceding 3 years, and the acreage of food and feed crops needed for home consumption on the farm. In distributing this equity fund, due allowance under instructions issued by the Secretary shall be made for sources of cash farm income other than that derived from cotton.

If the quantity of cotton produced on the fixed number of acres exceeds the quantity specified, as otherwise provided in the bill, the quantity so produced shall prevail as the national marketing quota and all of it may be marketed in interstate and foreign commerce.

Three percent of the national marketing quota may be allotted and apportioned to farms producing cotton for the first time during the last 10 years.

It is provided that if, after due notice and opportunity for public hearing to interested parties, the Secretary determines that the national marketing quota then in effect does not make available a normal supply of cotton, the Secretary shall increase such national marketing quota so as to make available during the marketing year a normal supply. It is also provided that if by reason of drought, war or other national emergency, or increase in exports, the Secretary has reason to believe that the national marketing quota should be increased or suspended, then the Secretary shall proclaim that fact, and he may increase the farm-marketing quotas within any production area or suspend marketing quotas.

The willful marketing in interstate or foreign commerce of any cotton produced on a farm for which a quota has been established in excess of the quantity produced on such acreage is prohibited. Ginning such cotton and selling it creates a prima facie presumption that such cotton was marketed in interstate or foreign commerce in violation of this act.

Any person knowingly purchasing or selling cotton marketed in violation of the above provision shall pay a penalty of 75 percent of the purchase price of the cotton. Such penalty accrues to the United States and may be collected by suit filed by the Department of Justice in the Federal courts.

Persons who knowingly sell cotton grown on acreage not included in an acreage allotment shall not be eligible for any payments under the Soil Conservation and Domestic Allotment Act nor under this act and shall not be eligible for any Government cotton loans during the current season.

The Secretary is directed to provide by regulations for the identification of cotton produced on the allotted acreage in such way as to afford aid in discovering and identifying cotton sold or offered for sale which was not produced on acreage included in any farm allotment.

The allotments to farms are to be made by the Secretary through State, county, and local committees of farmers set up under the bill. All farms are to be measured to ascertain whether an excess over the apportionment of any farm under the national marketing quota has been planted to cotton. If an excess acreage is found on any farm the committee shall promptly file with the State committee a written report stating the total acreage in cultivation and the acreage then planted to cotton.

The election of county and community committees by the farmers is provided for under the administrative provisions beginning on page 73 of the bill.

Definitions are contained in section 61, beginning at the bottom of page 64.

Title IV. Tobacco

This title provides for regulation of the marketing of tobacco. It comes into operation only when abnormally excessive supplies are found to exist. It provides for such regulation through the establishment of marketing quotas for tobacco and for the collection of penalties from those who acquire from producers tobacco marketed in excess of the marketing quota for the producer's farm. The definitions found in title VI, section 61, are applicable to this title. General provisions for its administration are found in sections 62 and 63. It applies separately to flue-cured, fire-cured, dark air-cured, burley, Maryland, and cigar filler and binder tobacco as distinct kinds of tobacco.

Section 40: This section is a finding by Congress of the basic facts which give rise to the need for the regulation of tobacco marketings. It contains findings that the marketing of tobacco is one of the great basic industries of the United States, that tobacco is sold on a Nationwide market and, with its products, moves almost wholly in interstate and foreign commerce; that the marketing of tobacco directly affects interstate commerce; and that stable conditions in the industry are necessary to the general welfare. These findings stated in general terms are fully supported by the statistics available to show the scope and character of the business of distributing tobacco from producers to consumers.

The section contains the further finding that farmers producing tobacco are widely scattered throughout the Nation, that their operations are subject to natural forces beyond their control, that in many cases they carry on their operations on leased land and borrowed money, and that in general they are not in a position, without Federal assistance, to so coordinate their operations as to be able to control effectively the orderly marketings of tobacco. The section contains a finding that these conditions result in abnormally excessive supplies of tobacco being produced and dumped indiscriminately on the national market.

Subsection (b) contains a finding that the disorderly marketing of these excessive supplies burdens and obstructs interstate commerce in tobacco by materially affecting the volume of tobacco marketed in interstate commerce, and by disrupting the orderly marketing of tobacco in interstate commerce. These two results of excessive supplies are practically axiomatic. There is a further finding that the marketing of abnormally excessive supplies reduces the price of tobacco and ultimately is injurious to commerce in tobacco. The marketing of excessive supplies of tobacco has been consistently accompanied by reduced prices. Experience has shown that excessive reduction in the amount produced follows the marketing of exceedingly large crops at low prices, with consequent excessive increase in prices and restriction of volume in subsequent marketing seasons.

There is a further finding that the reduction in price of tobacco caused by the marketing of excessive supplies results in a reduction of interstate commerce in industrial products. Long experience has demonstrated that farmers' purchases of commodities which flow in interstate commerce are acutely and directly affected by the amount of money they get from the sale of their products, and that commerce in industrial products, is affected adversely by the low farm incomes

which result from the marketing of excessively large crops at disastrous prices. The section concludes with a finding that the provision made for regulating the marketing of tobacco by producers becomes necessary whenever abnormally excessive supplies of tobacco exist. It is to be noted that the marketing quotas provided for in the title are not continuously effective. They come into operation only when the supply of tobacco is more than enough to meet normal requirements for domestic consumption and exports and to maintain stocks adequate to meet requirements when adverse conditions cut production below consumption. This quantity, as defined in the act, consists of a normal year's domestic consumption and exports plus 175 percent of a normal year's domestic consumption and 65 percent of a normal year's exports, which is defined in the act as normal production, plus an additional reserve supply of 5 percent of this normal production. This level is called the reserve level.

Section 41 provides the mechanics for making the quotas effective. It requires the Secretary to proclaim the amount of the total supply of tobacco not later than December 1 of any year in which, prior to November 15, he has found that the total supply exceeds the reserve supply level. It provides that in such a case he shall specify the amount of a national marketing quota in terms of the total quantity of tobacco which may be marketed. The amount is to be such as will make available for marketing a supply equal to the reserve supply level. The quota so determined becomes effective during the next succeeding marketing year.

The section also requires the Secretary to conduct a referendum within 30 days after he issues the proclamation, to determine whether farmers who will be subject to the marketing quota favor or oppose it. It provides that if he finds that more than one-third oppose the quota, he shall proclaim that fact before the 1st of January, whereupon the quota previously announced becomes ineffective. The section provides that any quota for the 1938–39 marketing year may be made effective by an announcement by the Secretary not later than February 1, 1938, and that the results of the referendum may be deferred in that year until not later than the 1st of March.

Section 42 provides for the apportionment of the national marketing quota among the States on the basis of the total production of tobacco in each State during the preceding 5 calendar years. It provides that this apportionment shall take into account tobacco base acreages and goals established under previous agricultural adjustment and conservation programs and requires that adjustments be made for abnormal conditions of production, for small farms, and for trends during the 5-year period. These provisions are designed to make possible a fairer apportionment than would result from the use of a purely mathematical basis. The section provides also for the use of not in excess of 3 percent of the marketing quota for any State for allotment among farms in the State on which tobacco is being produced for the first time in 10 years. It provides that the apportionment of this 3 percent shall be based upon the land, labor, and equipment available for the production of tobacco on such farms, the crop-rotation practices that have been employed on such farms, and the soil and other physical factors on such farms which affect their capacity to produce tobacco. The quotas for such farms are required to be limited to not more than 75 percent of the quotas established for farms which have

a similar capacity to produce tobacco but which have produced tobacco during the 10-year period.

Subsection (d) provides that marketing quotas may be transferred, but only subject to such conditions and in such manner as the Secretary may prescribe.

Section 43 (a) provides that a marketing quota may be increased if the Secretary finds that its operation is preventing a normal supply of tobacco from becoming available.

Subsection (b) provides for the termination of any marketing quota if the Secretary finds such termination necessary because of an increased demand resulting from a war or national emergency.

Section 44 prescribes a penalty, payable by any person who knowingly acquires tobacco marketed by a producer from a farm in excess of the marketing quota. The penalty is 50 percent of the market price of the tobacco on the day of such acquisition or 3 cents per pound in case of flue-cured, Maryland, or burley tobacco, and 2 cents per pound in case of all other tobacco, if these per-pound rates are higher than 50 percent of the market price. A purchaser is permitted to deduct the amount of the penalty from the purchase price.

Subsection (b) provides that the Secretary may require persons having to do with the production, marketing, and processing of tobacco to keep records and report information necessary to enable him to carry out the provisions of the title. It provides also for the examination of books and records which the Secretary has reason to believe are relevant to a determination of the correctness of any such report or record or to the obtaining of information required to be furnished in any report. The section also provides a fine for any person failing to make any report or keep any such records required or making a false report or record.

Subsection (c) confers jurisdiction upon the district courts of the United States to enforce the provisions of the section and imposes a duty upon district attorneys to commence proceedings to collect the penalties, if and when the Secretary requests them to do so. The section provides also that the remedies and penalties of the section are additional to existing remedies and penalties.

Subsection (d) requires that all information required by the Secretary pursuant to the section be kept confidential, except that it may be disclosed in a suit or hearing involving the administration of the marketing-quota provisions for tobacco.

Title V. Rice

The legislative finding pertaining to rice is similar in its main features to that for other commodities. Rice is one of the great basic industries of the United States and is sold on a Nation-wide market, moving almost solely in interestate or foreign commerce, from the producer to the ultimate consumer. Farmers are unable without Federal assistance to effectuate the orderly marketing of rice so that abnormally excessive supplies are produced and dumped on the Nation-wide market, which constitutes an obstruction of interstate and foreign commerce and affects the volume of rice marketed, disrupting the orderly marketing, and reducing the price of the commodity.

The act provides that not later than December 31 of each year (except as to the current marketing year beginning August 1, 1937, for which said crop year the determination shall be made within 30 days after this act becomes effective), the Secretary shall proclaim the total amount of rice which will be needed during the next succeeding marketing year, beginning August 1, to meet the requirements of consumers in the United States and its Territories. The Secretary will also proclaim the amount required in Cuba, if at that time the Cuban tariff rate on not less than 100,000,000 pounds of rice is at least $1.70 per hundred pounds less than the rate on rice from other countries. The sum total of these requirements is what is called the "domestic allotment." The Cuban Government has granted a temporary adjustment in the tariff rate on rice of $1.71 per hundred pounds less than the tariff on rice from all other countries of the world. This concession enables rice produced in the United States to compete in the Cuban market with rice produced from other countries of the world on a price basis comparable to that prevailing in the United States.

The domestic allotment for the marketing years commencing August 1, 1937, and August 1, 1938, shall be apportioned by the Secretary among the several States in which rice is produced on the following basis: First, between California on the one hand and all other States on the other hand in proportion to the rice-base production established for such States under the 1937 agricultural conservation program; second, among the States other than California in proportion to the average of (1) the rice-base production established for each State under the 1937 agricultural conservation program, (2) the average amount of rice produced in each State during the 5-year period 1932–36, and (3) the amount of rice produced in each State in 1937. Apportionment for subsequent years among the several States will be made as follows: The larger of (1) the average amount of rice produced in each State during the 5-year period including the calendar year in which such domestic allotment is announced, or (2) the domestic allotment made to each State for the preceding year.

After each State shall have been apportioned its pro rata allotment for the marketing years commencing August 1, 1937, and August 1, 1938, each producer within each State shall be given a base allotment of the average of (1) the base production established under the 1937 soil-conservation program; (2) the average production during the 5-year period 1932–36, including the normal production of diverted acreage; and (3) the production in 1937 including the normal production of diverted acreage. For subsequent years the individual producer shall be given an allotment of the larger of (1) the average of the preceding 5 years' production, or (2) the allotment originally assigned him, whichever is the higher.

It is felt that by increasing the allotment of those producers who have cooperated with previous programs by the amount of the normal production of the diverted acreage, the cooperating producer is placed on a basis comparable with the noncooperating producer who had not diverted acreage from rice production under the original Agricultural Adjustment Act and the soil-conservation program. It is also felt that adequate provision is made to permit the Secretary to make adjustments so that the allotment for each producer will be fair and equitable. In order to provide for new producers, not less than 3

percent of each State's allotment is made available to them and will be allotted uniformly within the State on a basis to be determined by the Secretary.

Under the terms of this title, the Secretary is authorized to make payments not to exceed five-tenths of 1 cent per pound of rough rice from the funds appropriated under the Soil Conservation and Domestic Allotment Act to all producers of rice who abide by such rules and regulations as may be made by the Secretary. All producers, however, will have the option of setting aside for each acre planted to rice, 1 acre of land previously used for rice production and allowing such land to remain idle or fallow, instead of following the regulations as set forth by the Secretary.

The Secretary is authorized to establish a national marketing quota, when the total supply of rice exceeds by 15 percent the normal supply (the normal supply is the average for the past 10 years of domestic consumption and exports plus 10 percent thereof for a normal carry-over), and should two-thirds of the rice producers by referendum vote in favor of such national marketing quota, then it shall become effective for all producers. Such national marketing quota will be apportioned among the States and farmers, including new producers, as hereinabove outlined. The total of the apportionment to producers shall not be less than the normal supply of rice, thereby protecting consumers against the possibility of a shortage in the rice supply and consequent increase in price of rice.

Should the Secretary find that the national marketing quota will not provide a normal supply of rice, he is required to conduct an investigation and should such investigation disclose that a normal supply of rice will not be available, then such quota may be increased to a point where a normal supply is available, and each producer's quota will be increased in the same ratio.

After a national marketing quota shall have been established as provided in this act, and apportioned among the producers of rice, the marketing of rice in excess of the quota assigned to each producer will be subject to a penalty of five-tenths of 1 cent per pound of rough rice so marketed. Such penalty will be collected from the purchaser of the rice, and the purchaser may deduct the amount of the penalty from the price of the rice, as it is felt that the administrative difficulties in the matter of collections are greatly alleviated and the purpose of the act is more adequately achieved. The Secretary has the authority to regulate the collection and payment of these penalties.

Definitions and findings and administrative provisions pertaining to rice will be found under title VI of the act.

Title VI

Section 60 provides in detail for the publication and court review of soil-depleting base acreages, normal yields, and marketing quotas with respect to a farm.

Section 61: This section defines the various terms used in the act.

Section 62 provides for hearings in connection with the terms and conditions of adjustment contracts and loans, regulations under the act, diversion percentages, etc. This section further provides that the Secretary may utilize local associations of farmers in the administration of the act, and prescribe detailed instructions for the election of such local and State committees. Further provision is made for

the manner in which the administrative expenses of such local committees shall be met. There are provisions in this section also for proclamation of parity and farm prices and total supply; there are also provisions requiring the use of the latest available statistics of the Department in ascertaining surpluses and prices, provisions establishing the finality of the Secretary's determinations with respect to the basis for any payment or loan under this act, and provisions making the benefits of this act available to Members of Congress.

Section 63 provides that the Secretary shall provide for the execution by the Agricultural Adjustment Administration of such of the powers conferred upon him by this act as he deems may be appropriately exercised by such Administration, and the provisions of section 10 (a) of the Agricultural Adjustment Act, as amended, and reenacted by the Agricultural Marketing Agreement Act of 1937 shall be applicable to the employment and compensation of officers and employees.

Section 64 authorizes the appropriation for each fiscal year for the administration of this act, and for the making of Soil Conservation Act payments and parity payments under this act such sums as are necessary. This section provides that there is made available for parity payments with respect to cotton, wheat, and field corn for any year commencing on or after July 1, 1938, 55 percent of all sums appropriated for the purposes of sections 7 to 17 of the Soil Conservation and Domestic Allotment Act, as amended, for such year, and in the event such appropriation is not sufficient to make the aggregate parity payments payable under schedule A, all such payments shall be reduced pro rata. A further provision is made that a sum not to exceed $10,000,000 is authorized to be made available for the administration of this act during the fiscal year ending June 30, 1938, from the funds appropriated for such fiscal year for carrying out the purposes of sections 7 to 17 of the Soil Conservation and Domestic Allotment Act. This section contains provisions whereby the Secretary shall determine the character and necessity for expenditures under this act, the Soil Conservation and Domestic Allotment Act, as amended, and the Sugar Act of 1937. The manner in which such payments shall be incurred and allowed, the persons to whom payments shall be made including the persons entitled to receive such payments in the event of death, incompetency, or disappearance of the persons who otherwise would have been entitled to receive the payments, and prescribes voucher forms and supporting forms without regard to the provisions of any other laws governing the expenditure of public funds. This section further provides: (1) That parity payments may be made subject to the consent of the farmer in the form of amounts of the commodity with respect to which the payment is made equivalent to money payments at the rates determined pursuant to the provisions of schedule A; and (2) that no payment shall be made with respect to any farm in connection with cotton, wheat, or corn unless where the area of cropland on the farm permits and it is otherwise feasible, practicable, and suitable, there is grown on the farm an acreage of food and feed crops sufficient to meet home consumption requirements. The purpose of this provision is to cause farmers who produce the commodities above named to grow their own living on the farm, to the extent of their ability, under penalty of not receiving benefit payments. This section also provides that all cotton of the 1937 crop warehoused in the calendar year 1937 and held as

security for a loan from the Federal Government shall, pursuant to regulations of the Secretary, upon the request of any borrower, be reclassified, restapled, and reweighed by a licensed Government classer without expense to such borrower.

Section 65: This section provides that the act shall not apply to cotton having a staple of 1½ inches in length or longer.

Section 66: This section sets forth the usual separability clause in the event any provision of the act is held invalid.

Title VII. Surplus Reserve Loan Corporation

Section 70: This section provides for the establishment of the Surplus Reserve Loan Corporation which is authorized to be set up in section 12 of the bill.

Section 71: This section defines the powers of the Corporation established in the preceding section.

Section 72: This section specifies that the capital stock of the Corporation shall be $100,000,000, to be subscribed to by the United States. Such sum is authorized to be appropriated by this section.

Section 73: This section empowers the Corporation to issue notes, debentures and other obligations in a par amount aggregating not more than five times the amount received by the Corporation in payment of its capital stock. The Corporation is further authorized to prepare such forms as shall be suitable for this purpose.

Section 74: This section provides that said Corporation shall act, when designated for that purpose by the Secretary of the Treasury, as a depository of public money and as a financial agent of the United States Government.

Section 75: This section provides for the expenditure of funds and requires the Corporation to maintain complete and accurate books of account at all times. It also provides for the filing with the Secretary of Agriculture of an annual report as to the business of the Corporation. The General Accounting Office is directed to make an audit of the financial transactions of the Corporation at least once each year. The obligations issued by the Corporation are exempted from all taxation.

Section 76: This section provides for the necessary penal provisions with respect to embezzlement or misappropriation of funds of the Corporation.

Title VIII. Amendments to Soil Conservation and Domestic Allotment Act

Section 80: This section contains certain amendments to the Soil Conservation and Domestic Allotment Act in order to make said act conform to the provisions of this act.

Title IX. Cotton Pool Participation Trust Certificates

Section 90: This section makes available to the manager of the Cotton Producers' Pool the sum of $1,800,000 for the purpose of purchasing and canceling the cotton pool participation-trust certificates, known as Form C–5–I, where such certificates are tendered to the manager of the Cotton Producers' Pool, by the person shown by the records of the United States Department of Agriculture to have been the lawful holder and owner thereof as of May 1, 1937. When

the cotton pool was liquidated a surplus of approximately $1,800,000, which resulted from the operations of the cotton pool, was covered into the Treasury of the United States. It is the opinion of your committee that this sum, instead of being turned back into the Treasury, should have been ratably distributed among the participants of the pool, and if this section is enacted into law, this net surplus of the pool will be equitably divided among the persons who cooperated in the formation and operation of the pool.

Money and Prices

By direction of the committee the following statement relative to the effect of money upon farm prices and farm income is incorporated in and made a part of this report.

The farm problem is a price problem. First, the price which the farmer receives for his products, and, second, the price he has to pay for the things he has to buy.

The hearings disclose that there are two factors in the main which control the price which the farmer receives for his commodities. One of these factors is the quantity of production and the other is the fluctuation in the value of the dollar.

In order to make substantial progress in solving the farm problem, both of these factors, or influences, on farm prices and farm income must be given consideration.

The bill herein reported has for its purpose the increasing of farm prices; hence, increasing the income to the farmer.

The bill, in the main, proposes a plan for raising prices through control of production and the elimination of unnecessary and wasteful surpluses. However, the committee is of the opinion that, in order to make the plan workable and practicable, the price level must first be adjusted and regulated and, thereafter, stabilized. The dollar value controls the price level; hence, to adjust and regulate such price level, the dollar value must first be adjusted and regulated.

Paragraph 5 of section 8 of article I of the Constitution confers upon the Congress the exclusive power "to coin money and to regulate the value thereof."

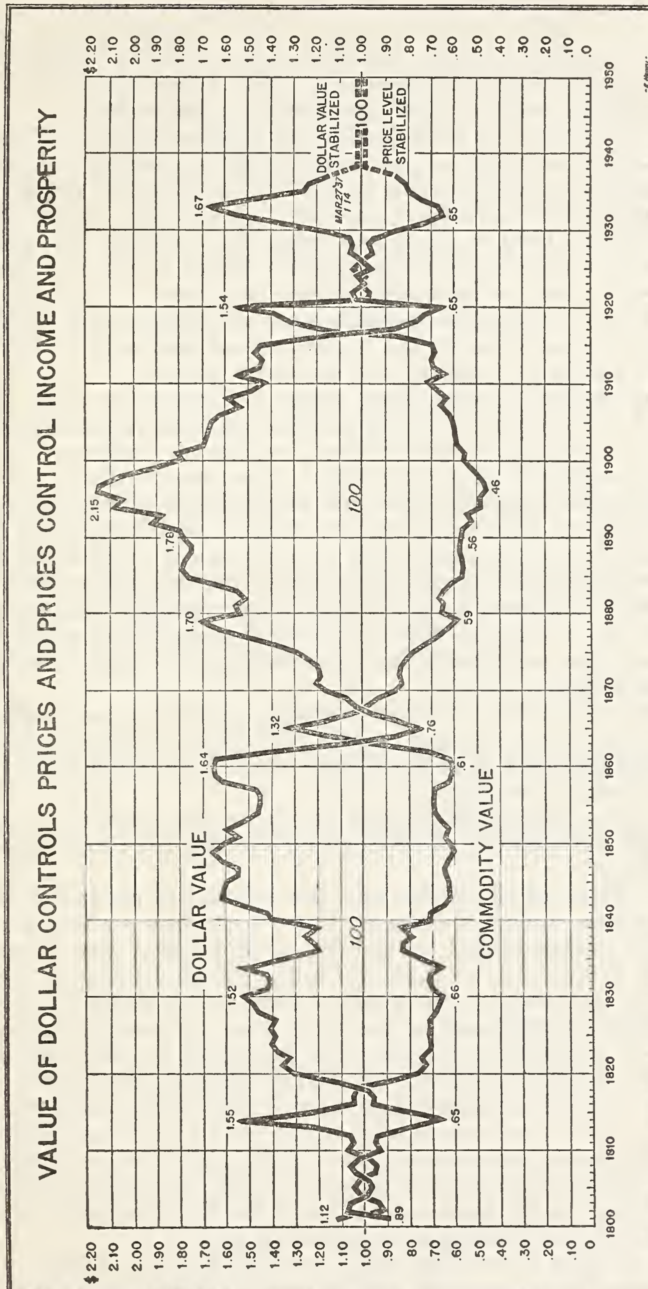
The committee reports that the constitutional power "to coin money" has been vitalized, but that the power to regulate the value of the dollar has never been given the consideration its importance demands.

The farmer buys with the products of his farm everything he uses and consumes.

The farm dollar fluctuates the most widely; hence is the most unstable dollar any group has to contend with.

The record shows that since 1800 the value of the dollar, as measured by wholesale commodity prices, has fluctuated as follows:

In 1800 the dollar was valued in commodities at 100 cents.
In 1812 the dollar was valued in commodities at 155 cents.
In 1830 the dollar was valued in commodities at 66 cents.
In 1860 the dollar was valued in commodities at 61 cents.
In 1865 the dollar was valued in commodities at 132 cents.
In 1880 the dollar was valued in commodities at 59 cents.
In 1896 the dollar was valued in commodities at 46 cents.
In 1919 the dollar was valued in commodities at 154 cents.
In 1926 the dollar was valued in commodities at 100 cents.
In 1929 the dollar was valued in commodities at 105 cents.
In 1932 the dollar was valued in commodities at 65 cents.
In 1937 the dollar was valued in commodities at 81 cents.


VALUE OF DOLLAR CONTROLS PRICES AND PRICES CONTROL INCOME AND PROSPERITY
DOLLAR VALUE
COMMODITY VALUE
DOLLAR VALUE STABILIZED
PRICE LEVEL STABILIZED
100
1800
1810
1820
1830
1840
1850
1860
1870
1880
1890
1900
1910
1920
1930
1940
1950
$2.20
2.10
2.00
1.90
1.80
1.70
1.60
1.50
1.40
1.30
1.20
1.10
1.00
.90
.80
.70
.60
.50
.40
.30
.20
.10
0

The foregoing chart shows the relation of prices to the value of the dollar. The dollar value we seek to attain is indicated on the chart at 100. As will be noted, when the dollar value is at 100, the price level of commodities is likewise at 100. When the dollar value is above 100, the price level of commodities is below 100.

From the chart it is seen that the only times the farmer has had an advantage in farm prices have been during the wars in which we have been engaged. Save for the wars of 1812, 1861–65, and the World War, farm prices have been depressed by the high valuation of the dollar. From 1800 to 1810 and from 1921 to 1929 the dollar was held fairly stable in terms of commodities; hence the committee recommend that special consideration be given to the value of the dollar to the end that such value may be adjusted and regulated to the proper point to serve the best interests, not only of agriculture, but likewise the best interests of all of our people.

The committee reports that, unless and until the dollar value is regulated and stabilized, it will be impossible to regulate production of farm commodities in any kind of a satisfactory manner.

The committee further reports that, unless and until the dollar value is adjusted and regulated and such value thereafter stabilized, it will be impossible to adjust and regulate taxes, rents, wages, and salaries.

The testimony presented to the committee was to the effect that the price level should be raised, which means that the dollar value should be reduced. Farmers in the cotton States testified that, in order to produce cotton and pay costs of production and have some profit to spend with the merchants, such cotton should sell for more than 15 cents per pound.

In the wheat States farmers testified that, to make money from raising wheat, they must get over $1 per bushel. Farmers, North and South, testified that they must have over 75 cents per bushel if corn is to be produced at a profit.

The value of the dollar controls the price level—and the prive level, along with the quantity of production, controls the price of any given commodity.

As the value of the dollar and the volume of production change, prices change—unless we should have a condition where the dollar value was increasing and the volume of production was decreasing in the same proportion, so that one influence would exactly offset the other. Since March of this year we have had a rising valued dollar, causing prices to fall; and at the same time we have had overproduction of farm products, likewise causing prices to fall; and both influences have been responsible for the low prices for the 1937 farm crop.

In 1932, when the dollar value was high (167), prices were low, cotton sold for 5 cents per pound, wheat sold for 25 cents per bushel, corn sold for 15 cents, and oats sold for less than 10 cents per bushel.

In 1919, when the dollar value was low (65), prices were high, cotton sold for 40 cents per pound, wheat sold for $2.50, corn for $1.50, and other commodities brought comparable prices.

In 1896 when the dollar value was the highest in history (215), prices were the lowest, and the Bryan free-silver campaign was the result of the demand of the farmers and the producers for higher prices.

In 1933 the administration, recognizing the plight of the farmer, took steps to increase prices.

On May 7, 1933, President Roosevelt made a Nation-wide radio address, in which he said:

> The administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money, will on the average, be able to repay that money in the same kind of dollar which they borrowed.

On Sunday, October 22, 1933, in a "fireside chat" the President said:

> Finally I repeat, what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels.
>
> * * * * * * *
>
> No one who knows the plain facts of our situation believes that commodity prices, especially agricultural prices, are high enough yet.
>
> * * * * * * *
>
> It is the Government's policy to restore the price level first.
>
> * * * * * * *
>
> I am not satisfied with either the amount or the extent of the rise.
>
> * * * * * * *
>
> If we cannot do this one way we will do it another.
>
> Do it we will.
>
> * * * * * * *
>
> When we have restored the price level we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generations.

The Congress has followed and is following the recommendations of the President in trying to secure higher prices for farm commodities.

The Committee on Agriculture and Forestry, in reporting the Agricultural Adjustment Act of 1933 to the Senate, said:

> In reporting this bill favorably we feel that we should advise the Senate that, in our opinion, the bill will not alone afford the relief which the farmer must have to enable him to survive economically.
>
> If we concede that the bill reported will bring about all the benefits claimed—agricultural price parity with other commodities—yet we are forced to the conclusion that such limited relief will not enable the farmers to meet their fixed charges such as taxes, interest, debts, and necessary expenses.
>
> We report these facts and state that no substantial relief is possible for agriculture until the policy of deflation is not only checked but reversed and a substantial sum of actual money is admitted and, if need be, forced into circulation.
>
> Agriculture does not demand a 50-cent dollar or an unsound dollar, but does protest the retention of a 200-cent dollar. A dollar which fluctuates in purchasing power from 50 cents in 1920 to 200 cents in 1933 is neither a sound nor an honest dollar. Dollars so scarce as to be obscure, thereby forcing into existence systems of barter, trade, and scrip, are not adequate.
>
> Agriculture demands that the farmer should have a 100-cent dollar; that the purchasing power of the dollar should be fixed and established at that point to serve the best interests of the people, trade, commerce, and industry, and that when such value is once fixed it should be stabilized at such value.
>
> We report further that no just, substantial, reliable, or permanent relief can be provided agriculture or any other industry until the money question is considered and adjusted.

Pursuant to and in harmony with the report of the committee, the Congress in enacting the Agricultural Adjustment Act of 1933 added title II, which gave the President power to cheapen the dollar for the special purpose of raising prices. The President exercised the power conferred and devalued the gold dollar some 40 percent, and such cheapening of the dollar was reflected immediately in higher prices. All must admit that had the Congress not conferred this power, and had the President not acted, the price of cotton today would be about 4 cents per pound, wheat would be selling for some 50 cents per

bushel, and other commodities would command only comparable prices.

The cheapening of the dollar was a deliberate governmental policy to raise the prices of farm commodities. The policy has worked. This administration has given the farmer the first legislative "break" in history.

Now a new question has arisen, as follows: How cheap should the dollar be made and how high should prices be raised in order to serve the best interests of our people?

While the dollar was being cheapened and prices were going up, prosperity increased and all were happy. Since last March the dollar has increased in value from $1.13 to $1.19, causing prices to fall, unemployment to increase, depression to come again, and now business of all kinds has slowed down and a new depression is threatened.

In 1926, during the era of so-called Coolidge prosperity, the dollar was valued in all commodities at 100 cents.

In 1929, when the depression came upon the country, the value of the dollar had gone up to $1.05.

Today, with much higher taxes and an almost doubled national debt, the dollar value is $1.19.

The committee is of the opinion and reports that to date we have not cheapened the dollar sufficiently to raise the price level high enough to show sufficient profits upon which taxes are paid to balance the budget.

A high price level produces high commodity prices, high wages, high farm income, high national income, and consequently high tax income to the Treasury.

A high price level produces happiness, progress, and prosperity.

A low price level produces exactly the reverse results.

In 1919, with a high price level, we had incomes and values as follows:

National income	$69, 000, 000, 000
Value of farm property	66, 000, 000, 000
Value of farm income	13, 000, 000, 000
Value of exports	8, 200, 000, 000
Income to Treasury	6, 007, 000, 000

In 1932, with a low price level, we had incomes and values as follows:

National income	$39, 000, 000, 000
Value of farm property	36, 000, 000, 000
Value of farm income	5, 000, 000, 000
Value of exports	1, 600, 000, 000
Income to Treasury	2, 100, 000, 000

From the foregoing it is obvious that the price level has a controlling influence upon our domestic economy. The record shows that from 1919 to 1929 we had a price level sufficiently high to permit of the collection of taxes in sufficient sums to not only keep the Budget balanced but, in addition, to reduce the national debt in the sum of $1,000,000,000 per year.

The committee is of the opinion and reports that the price level is now too low and recommends that existing powers be used and, if necessary, new legislation be enacted for the purpose, among others, of bringing about an increase in such price level to assist the farmers in securing parity prices for their products.

In February 1935, Mr. Frank A. Vanderlip, former Assistant Secretary of the Treasury, testified as follows:

We have already tried borrowing and spending our way to recovery. We have made numberless hopeful and well-meant experiments, aimed to bring us out of the depression. Thus far we have not emerged, nor will we—until the fatal defects of our money system have been corrected. To those defects, more than to any other cause, I attribute the depression.

What is it we want of our currency? We want money in which we will have unshaken confidence; confidence that it will be stable in its value. We want a dollar that will, in the language of the President, "not change its purchasing and debt-paying power during the succeeding generation."

And again:

Congress should fix a permanent standard of value, not a permanent gold weight, for the dollar; so that the dollar shall always buy the same cross section of commodities measured by the price index.

Then Congress should create an executive authority to carry out its intention. It should provide a mechanism for the management of our currency.

Gen. R. E. Wood, president of Sears, Roebuck & Co., on December 10, 1935, stated:

In the spring of 1933 the position of American agriculture as a whole was desperate. With a farm-mortgage debt of over $8,000,000,000, heavy interest charges and heavy taxes, with the index of farm prices down to 43.6 from 104.9 in 1929, American agriculture was at the bottom of the depression. Many thousands of farmers were on the verge of bankruptcy and foreclosure action had already been taken against other thousands.

The first remedy applied was a monetary one—we went off gold and the dollar was devalued. In 2 months, cotton went from 6.35 to 8.95 cents per pound, wheat from 45 to 75 cents, corn from 24 to 46 cents, and wool from 17 to 24 cents. Precisely the same effects had been previously felt in other countries leaving the gold standard, particularly in great agricultural producing countries like Australia, the Argentine, Canada, New Zealand, and Denmark. South Africa, the greatest gold producer in the world, went off gold because the pressure caused by staying on was too great for its agriculture.

Not enough credit has ever been given to this first and very important act of the present administration. The farm organizations had and have a far better understanding of the influence of the drastic decline of the price level, and of the influence of a fixed price of gold on that price level than the great majority of bankers and industrialists.

Mr. F. W. Pethick-Lawrence, in 1929–31, financial secretary to the British Treasury, stated:

I am convinced * * * that unemployment as it exists today is not an economic but a monetary phenomenon; a stabilized price level with neither inflation nor deflation is the only workable solution.

Later he proposed several steps to be taken by the British Government in order to successfully carry out a new monetary policy of stabilization, one of which was:

A declaration that the Government makes the stability of the wholesale price level the main object of its policies, and does not decide to return to the gold standard at the old level.

Viscount D'Abernon, formerly a prominent banker and after the war the British Ambassador to Germany, states:

It is too much the custom to act as though prices were born and not made—as though they were sent down by Providence independently of human action, and as if they had to be accepted like the gentle rain from heaven. Such a view is, in my judgment, a profound mistake. The price level is determined in the main by human action and by wise or unwise decisions. A stable price level is an achievement of intelligence and not an accident of nature.

Lord Vernon, a prominent leader of the coal industry, states:

(1) Movements to change wages and hours of labor up or down are the main cause of industrial strife.

(2) These movements are largely due to changes in the value of money, which is expressed by the average level of prices.

(3) Changes in the value of money further aggravate the trouble by opening out a gap between wholesale prices and the cost of living.

(4) For these reasons it is urgently necessary that the value of money should be stabilized in the interests of industrial peace.

In May 1928, 100 prominent British leaders connected with the productive industries sent to Prime Minister Baldwin the following statement:

We believe that a more stable system of currency credit and a means of stabilizing the price level are prerequisite to the restoration of prosperity of the great basic industries of this country. It would do far more than the expedients which the Government has been compelled to adopt.

Mr. Reginald McKenna, chairman of the world's largest bank—the Midland Bank of London—recently said:

History has shown that, apart perhaps from wars and religious intolerance, no single factor has been more productive of misery and misfortune than the high degree of variability in the general price level. This may sound like an extravagant statement, but so far from being of the nature of a demagogic outburst it is clearly demonstrable from the course of events in various countries ever since money became an important element in the life of civilized communities. A stable price level is a thing to be desired, second only to international and domestic peace.

On March 27, 1936, Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, in an address at the University of Cincinnati, is reported to have said:

* * * The Government fiscal policy and the central bank policy, credit expansion and contraction should be coordinated. I think that within the Treasury and the Reserve System there is a real possibility of money management.

The power of the Reserve System over the value of the dollar, and hence over the price level, was emphasized by the President when, in dedicating the new Federal Reserve Building on October 20, 1937, he said:

The Board of Governors, whose building we are dedicating today, was reconstituted by the Banking Act of 1935. To this public body Congress has entrusted broad powers which enable it to affect the volume and the cost of money, thus exerting a powerful influence upon the expansion and contraction in the flow of money through the channels of agriculture, trade, and industry. In this way much can be done toward the maintenance of more stable employment. Much can be done to aid in achieving greater stability of the true value of the dollar.

At present there are many Federal agencies possessing power to influence if not control the value of the dollar.

The President has power as follows: (*a*) To change the weight or gold content of the dollar; (*b*) to open the mints for the free coinage of silver; and (*c*) to have issued additional Treasury notes.

The Secretary of the Treasury has power to influence the value of the dollar through control of the stabilization fund and through the management of our silver-purchase program.

The Board of Governors of the Federal Reserve System has power to influence the value of the dollar through the many specific powers granted by law. The 12 Federal Reserve banks and their agents have power to influence the value of the dollar through their control

over expansion and contraction of credit and through their joint control with the Board of Governors over open market operations.

The Federal Deposit Insurance Corporation and the Comptroller of the Currency have power to influence the value of the dollar through their policies toward the national banks and State banks in the Federal Reserve System.

Conclusion and Recommendations

I

The price level is too low and should be raised to at least the 1926 level as shown by the Bureau of Labor Statistics.

II

The power over the value of the dollar, now divided among various agencies and departments, public and private, should be coordinated and concentrated in one Federal agency with a definite congressional mandate to such agency to properly adjust and regulate the value of the dollar and thereafter to stabilize such adjusted value.

○